Beyond Scarcity: A New Story for American Capitalism
by William Greider
An excerpt from *The Soul of Capitalism: Opening Paths to a Moral Economy (*Simon & Schuster, 2003), which appeared as the cover story for the fall 2003 issue of *Business Ethics*.

If we can step back from the troubled headlines of the day, we can see that a breathtaking new fact of history is upon us. It is so obvious one hesitates to announce it as news: The U.S. has solved the economic problem. We have conquered the dark forces of scarcity, hunger, and elemental suffering that have stalked societies across the millennia. Basic human needs are now eclipsed by the overflowing abundance produced by modern capitalism. Scarcity need no longer be the central premise of economics. The new premise is abundance. Yet the U.S. continues to press on, like a long-distance runner who has won the race and keeps running beyond the finish line.

We are caught in a strange contradiction. While there is plenty to go around, it doesn't feel like the best of times. Anxiety, insecurity, and real desperation for many expand along with material plenty. By official measure, one-fifth of America's children live in poverty. For a broad swath of Americans who are not poor, the economic problem remains a month-to-month struggle of keeping up with the rent or mortgage payment. More than a third of workers are worried about losing their jobs. Households have seen $3 to $4 trillion in putative wealth lost with the bursting of the stock market bubble.

Most Americans, I am convinced, have a sense that something is wrong in the contours of supposed prosperity. Even in affluent living rooms, one hears conversations about stress and disappointment, a sense of confinement, as though people's lives are trapped rather than liberated. Many who "live well" financially are unable to "live well" in human terms. The hunger is unnamed, and seems part of what the system demands.

The only remedy, we are told, is more. More output, more cost savings, and still more sacrifices to achieve them. Stuck in a mindset of scarcity, businesses continue to accumulate surplus by imposing harsh human and ecological costs. But what now justifies the sacrifice?

The operating principles of capitalism have become dangerously obsolete. The house of economics, I suggest, is due for major renovation, if not a complete tear-down.

John Maynard Keynes predicted this moment would arrive, when advanced economies could step back from ancient economic imperatives and be free to concentrate on "how to live wisely and agreeably and well." The economy's purpose, as Keynes put it, is to generate the material basis to support civilization – to enable society and citizens to explore the higher dimensions of human existence, to discover the fullest possibilities within themselves. In our prosperity, we seem to have that backwards. Lives are confined by harshened terms of work; the common assets of community are degraded in the name of pursuing more.

The question is: Can we alter the basic operating values of American capitalism so that the priorities of society become dominant? Can we realign financial power relationships so people have greater voice and responsibility in determining the conditions of their own lives?

While such bedrock changes will not be quick or easy, I believe they are within reach.

Indeed, early fragments of substantive progress are already visible, thanks to unsung pioneers working in business, finance, and social activism. It's no accident the locus of change is not the federal government, for it is not equipped to invent the terms of this new economic world. In order to endure, changes must originate *within* capitalism. They must be organic to the system, not exterior commands. If they are to be emulated widely, they must meet the test of practical reality.

Already many experiments pass these tests, from employee ownership to socially responsible investing. In these fledgling and uncoordinated efforts, what is being built is a prototype for a new prosperity – one in which financial, social, and ecological needs can all be met. Once our pioneers succeed in generating this new prototype, the politics is sure to follow.

There is no utopia in our emerging new story. But there is great reason for hope.

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We begin with ownership, for this has always been the magic word in capitalism. Whether the property is a home or business, the owner bears the risks and the responsibilities and thus exercises intimate control. If one's stewardship is sound, one reaps the surplus value in greater returns. The core of this analysis is the owner's responsibility to property, which is a bedrock principle. The essence of reform is restoring and expanding the connective qualities of ownership beyond the few, so that workers, investors, consumers, managers, and citizens are empowered.

Half a century ago, conservative economist Joseph Schumpeter observed that the complexities of modern industry and finance weaken the strands of owners' personal responsibility. Its meaning becomes distanced by layers of absentee ownership, while property itself – factories, machines – dematerializes when represented only by shares of stock. Responsibility evaporates.

In our new circumstance, I suggest it is possible to re-stitch the strands of responsibility and control, extending the power and obligations of ownership to ordinary Americans. If we start with a larger expectation of people's capabilities, we will discover they can handle it.

Most Americans, in current life, go to work daily and submit to what is essentially a "master-servant relationship" inherited from feudalism. The feudal lord dominated the serfs on his land and, if they resisted his every command, he expelled them. Now the lord is called a CEO. His powers are somewhat constrained by law, but the basic relationship endures. If this provocative comparison seems too harsh, it has struck a chord of recognition with readers of my book, *The Soul of Capitalism.* I have heard from business owners, lawyers, doctors, rank-and-file employees, even business-school professors, all seconding the observation and excited that someone has stated it in plain English.

The malformed power relationship at work explains a good deal about the injuries and confinements people experience. But it also produces the fundamental deformity at the heart of democratic society: gross inequalities of wealth and income. Does anyone imagine that the excesses of CEO pay could have occurred if employees had a voice in the matter? So long as the corporate structure is the engine for maldistribution, wealth inequalities will never be significantly ameliorated by government.

The solution is for workers to own their work. The forms for doing so – employee-owned firms, partnerships, cooperatives and other hybrids – are alive and growing. To be effective, they must incorporate not only employee ownership but collaborative decision making as well. United Airlines, though employee owned, failed to meet this second requirement. Southwest, on the other hand, with its strong culture of employee ownership and engagement, has soared while the big airlines stumbled.

Joe Cabral, CEO of Chatsworth Products Inc. in the San Fernando Valley, discovered the power of employee ownership in adversity. The electronics conglomerate that owned the Chatsworth division was selling it off, pennies on the dollar, because it seemed too low-tech (CPI makes the metal racks for stacking computers in data-processing centers). Cabral, fellow managers, and shop-floor workers rebelled against their fate, contributed personal savings, secured a loan from the National Cooperative Bank, and became 100 percent owners. That was 1991. Their holdings have since grown from $4 a share to $121. "We valued ourselves higher than any outsiders would value us," Cabral said.

"We have a wonderful capitalistic society," he continued. "But the wealth that's created ends up in too few hands." He believes that isn't sustainable. "At some point, capitalism is going to burst because we haven't done right for the folks who have actually created the wealth." At Chatsworth, he added, "everybody is sharing in the wealth that they're creating, and people are aligned with the success of the company."

Chatsworth is one among America's 11,000 employee-owned firms, most of them small. Many were launched by "populist-humanist-capitalists," as consultant Chris Mackin puts it. But there are much larger companies, like $2.2 billion furniture maker Herman Miller, that have proved the idea can be sustained across generations. All of Herman Miller's 7,500 employees are shareholders, encouraged to act like owners by a bonus system based on the creation of new economic value. They collectively hold just 15 percent. But there are mechanisms for their input into decisions at every level, through work teams, caucuses, councils, monthly business reports, and "state of the union" tours by executives. In a sector notorious for pollution, Herman Miller became an environmental pioneer because a committee of employees urged it.

Companies like Herman Miller and Chatsworth are just two among many impressive models for the new capitalism. The trouble is, they are a scarce minority. That shortcoming is partly explained by inertia and ignorance. But it's also a function of power.

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The operating values in capitalism emanate from the commanding heights of finance capital, where Wall Street may impose conditions on credit and capital transactions that alter the "social contract" for workers and communities far away. Mandatory twelve-hour shifts. Disappearing benefits. Arbitrary plant closings for balance sheet reasons that have nothing to do with the productiveness of the victims. The financial system is the most formidable front for systemic reform, yet also perhaps the most promising.

Americans were deeply educated – and angered – by the boom-and-bust stock market which revealed a lot about how Wall Street manages their money. The injured public still has a smoldering anger that could be mobilized for a more aggressive era of reform. The operative goal is for people to take control of their own money and make sure the collective wealth of working Americans is invested to serve – not injure – their long-term interests.

Socially responsible investing, I believe, is the bow wave for a deep change in American consciousness. In the 1990s, leading funds like Domini and Calvert established a startling and potentially explosive record of beating the broad market in returns. The socially screened Domini 400 Social Index gained an average of 20.83 percent annually during the 1990s, compared to 18.7 percent for the S&P 500. Even Dow Jones has gotten aboard with the new global sustainability index it launched in 1999, tracking the top 10 percent of the best environmentally conscious companies worldwide. It is outperforming Dow's broader global index by 2 or 3 percentage points.

Evidence is emerging that socially well managed firms are simply better managed firms. This is borne out by the pioneer research firm Innovest, which has developed an EcoValue environmental risk rating for thousands of corporations (much like the credit-risk ratings by S&P or Moody's), and uses it to analyze stock returns. In three- and four-year studies of cumulative stock performance, Innovest found that above-average rated firms outperformed below-average firms in sector after sector: in U.S. chemicals by 15.9 percent. In oil, by 17.2 percent. In electric utilities, 12.4 percent. Morgan Stanley tested the Innovest model and confirmed the advantage.

Equipped with such data, pension funds can begin to choose between good guys and bad guys. The first U.S. pension fund to use Innovest's data as a positive screen is the $3 billion public employee pension fund in Contra Costa County, Calif.

Peter Camejo, who is a trustee of the Contra Costa fund and founder of Progressive Asset Management in San Francisco, thinks the Innovest model may inspire others to examine company performance on different social issues, like employee satisfaction and community relations. "The theory goes that what you're really discovering is something fundamental about the company," Camejo said. "With a company that has a very high rating on the environment, what you're seeing is that the management team has its head on straight: they avoid litigation; they're thinking ahead. With a company that's bad, you may be discovering internal management problems."

Should the value of environmental or social screening catch on with institutional investors, it has the potential to shift capital flows on a large scale – and eventually impose capital-risk penalties on poor performing companies. Institutional investors, after all, control 60 of the largest 1,000 U.S. corporations.

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If finance represents one source of pressure for change, another is the clout of financially sophisticated activists. Rainforest Action Network and allies, for instance, triumphed this summer after years of struggle, when Boise Cascade agreed to phase out its worldwide commerce in old-growth forest products. Boise has notoriously resisted environmental regulation, but the activists surrounded this timber company with a circle of heavyweight "consumers" – firms like Kinko's, Home Depot, IBM, and hundreds of companies and universities who are major buyers of paper and wood products. When some of them began cancelling contracts, Boise caved.

A similar jujitsu was at work a few months earlier, when McDonald's announced a new dedication to food safety and told its poultry suppliers to stop using growth antibiotics in chickens. In that case, the "consumer" was McDonald's itself, which put the squeeze on agribusiness. Outside politics, ecology agitators are in effect creating an architecture for protogovernance – rules of behavior, enforcement techniques, and new public values gaining influence without benefit of law.

Another promising network of affiliated interests is developing at state and local levels, as activists attack the deranged practice of government subsidies to businesses that total at all levels $300 to $400 billion a year. In Los Angeles, the Figueroa Corridor Coalition for Economic Justice negotiated a milestone agreement with developers of the new Staples Center. In return for $75 million in city subsidies, the agreement stipulates union organizing rights, affordable housing units for 20 percent of the development, living wage standards, plus $1 million for parks and job training.

Also ripe for reinvention is the corporate institution itself. Since it is the central actor in economic life, Americans are not likely to achieve human-scale aspirations until the corporation is reformulated in fundamental ways. Deeper reforms ultimately will require government action. But first we need broad public inquiry and argument, working out the large questions of how the business organization should be constrained and reoriented. Only then can we arrive at agreement on core changes needed – like reducing "limited liability" protection for insiders, increasing their exposure to personal loss. Or changing internal governance, to give voice not only to shareholders but to employees and the community as well.

The only way to make such reforms plausible in politics is to generate many socially oriented corporations, large and small, that adhere to these new values. If we now have cutting-edge companies like Herman Miller and Chatsworth, we need many to make the issue real for Americans at large.

Above all, we need a new narrative of American capitalism. Our nation tells itself a strangely masochistic version of the American dream: If you want to be truly happy, you need to be truly rich. Most understand this is a mirage. In our new condition beyond scarcity, the economy of "more" has turned upon itself, tearing the social fabric and weakening family and community life, piling up discontents alongside the growing plenty. We need a new story, suitable for a new abundance.

As it presently functions, capitalism encourages human pathologies – embodying irresponsibility as a central requirement in its operating routines. But a new narrative beyond "more" is beginning to emerge organically within capitalism. Central to this story is the fact that people themselves can make change, despite the inertia of government and the overbearing power of established economic interests. Pioneers in many sectors are showing the way to dismantle or reengineer the status quo. If they are scattered and marginal, they are nonetheless making real progress. As more people come to understand new options, change will spread.

What we are after is more room for life itself. More power for ordinary people to control their lives and work. More equity in the distribution of rewards. More nurturance of society's softer assets: babies and children, the fate of the Earth and other living things, the grace notes of community life.

Imagine this narrative: Inventive Americans, having conquered scarcity and accomplished great plenty, set out to discover how to live wisely and agreeably and well with abundance. Secure in material terms, they hope to learn at least what it means to be fully human. That was Keynes's prophesy. It is America's new story.

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The book is available in bookstores, or can be purchased at www.simonsays.com.